



Program Statement

OPI: FPI
NUMBER: 8337.01
DATE: 7/31/2003
SUBJECT: Corporate Costing
Policy - FPI

1. **PURPOSE AND SCOPE.** To establish policy for developing and maintaining corporate standard costs for the products and services provided by Federal Prison Industries (FPI).

Corporate standard cost is the cost of goods manufactured. It is used to determine the inventory value of finished goods and sub-assemblies. Corporate standard cost is also an important consideration when determining selling prices.

The Product Support Center (PSC) is responsible for developing and maintaining corporate standard costs for all FPI products and services. Cost estimates use data from the following:

- Work Measurement
- Material Master
- Bill of Material (BOM)
- Item Standard Routing (ISR)
- Activity Rate

The approved corporate standard cost is the current planned price as generated by the **Millennium** system at the designated primary factory.

2. **PROGRAM OBJECTIVES.** The expected results of this program are:

a. Management responsibility for master data used to generate corporate standard costs will be assigned.

b. Criteria will be established for releasing new cost standards.

c. Requirements for documentation of changes to master data affecting cost standards will be defined.

3. **DIRECTIVES AFFECTED**

PS 8281.01 FPI Work Measurement Program (6/1/95)
PS 8340.09 Bill of Material and Item Standard Routing
Data Accuracy - FPI (8/7/01)

OMB Circular A-123

4. **STANDARDS REFERENCED.** None

5. **RESPONSIBILITIES.** Responsibility for corporate standard costing is assigned to the Controller of the Financial Management Branch (FMB), Associate Wardens (AW), and Superintendent of Industries (SOI), Factory Managers, and the Manager, Product Support Center (PSC).

a. The **FMB must:**

- Review and update activity rates annually.
- Notify the affected factories and PSC if the activity rate is changed and if new cost standards should be generated.
- Coordinate with the PSC before starting end-of-year inventory valuation procedures and after completing the end-of-fiscal year inventory valuation.

b. The **Associate Warden (Industry)/Superintendent of Industry must:**

- Ensure the Work Measurement Coordinator maintains accurate documentation of work measurement data.
- Ensure the Factory Manager maintains accurate bills-of-materials (BOMs) and routings which contain manufacturing times derived from and matching work measurement source data.

c. **Factory Managers must:**

- Review the accuracy of all current production item BOMs and routings annually.
- Obtain prior PSC approval of all changes to a BOM and routing standard data. Work measurement data must be provided to the PSC to support any changes in routings.
- Notify the PSC when job cost analyses reveal a significant increase or decrease in material costs.

d. **Product Support Center must:**

- Generate new corporate standard costs when warranted by changes in BOMs, routings, or material costs. The FMB will approve the generation of new cost standards based on changes in activity rates.
- Review periodically and verify that BOM and routing data is derived from and consistent with approved work measurement data.
- Designate the primary producing factory for each finished good item FPI manufactures and load special procurement keys for all other factories manufacturing the same item. Special procurement keys direct the system to use costing data from the primary producing factory to determine standard cost at secondary factories.
- Notify the Business Manager whenever the corporate standard cost is changed on any item since changes in standard costs affect inventory values.

6. **PROCEDURES**

a. **Annual Schedule.** The FMB must enter new activity rates for the new fiscal year into **Millennium** by December 1. FMB will notify the PSC when these new activity rates are entered so that new cost standards can be generated.

The PSC will release new corporate standard costs by January 31.

b. **Key Change Indicators.** Revision of corporate standard costs to revalue corporate inventories are authorized when:

- There is a significant change in total cost on standard inventory items resulting from, but not limited to, BOM, ISR, materials, and activity rate change/restructuring.
- Requested by the FMB.

c. **Costing by Manufacturing Strategy.** There are three MRP planning strategies FPI uses.

(1) **Make-To-Stock (MTS) Items (MRP planning strategy 41)** that are in current production or have stock in inventory will have corporate standard costs. Annual re-costing of slow moving items in inventory is required only when the item has been produced in the current fiscal year.

Ordinarily, new production items will use planning strategy 41 for costing. The use of other planning strategies for costing must be approved by the appropriate General Manager, Product Support Center Manager, and the FMB Controller.

(2) **Make-To-Order (MTO) Items (MRP planning strategy 20)** have unique characteristics that are specified by the sales order. Manufacturing cost variances are calculated according to the production order BOM and routing and are not settled against the inventory standard value.

Variances are settled against the sales order.

Normally, MTO items are not placed into inventory for more than a few days. MTO items are placed into customer stock and valued at the production order's planned cost. A standard value for an MTO item is only necessary if it is placed into inventory as unrestricted stock or transferred via Stock Transfer Order (STO).

(3) **Variant configured (VC) Items (MRP planning strategy 25)** are custom items and therefore cannot have a standard cost. Whenever VC items are placed into inventory as unrestricted stock, a standard value of a representative configured item must be calculated.

Simulation costing of a representative configured item will be completed and used to establish a standard inventory value for configured items before placement into inventory as unrestricted stock or transferred via STO.

AW/SOIs must ensure that the standard costs of MTO and VC items placed in unrestricted stock are reviewed systematically for accuracy of BOMs and routings and consistency with work measurement source data.

/s/

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